THE OVERDRAFT EVIL AS ILLUSTRATED BY CONDITIONS IN IOWA BANKS

One of the most striking relics of the slovenly banking practices of the period preceding the establishment of the national banking system is the very general practice of allowing individual depositors to overdraw their accounts. This indulgence is closely related to that leniency which formerly granted to borrowers a number of days, or even weeks, of grace for the payment of promissory notes beyond the time when such notes were due.

The motive underlying these indulgences is, in perhaps most cases, praiseworthy. It is the desire to be helpful and charitable; the determination not to be too hard on those in difficulties. But experience has shown that the welfare of the community, and generally of the individuals themselves, is in the long run best promoted by the establishment and maintenance of certain business standards which must be met, even though it be at the temporary inconvenience and disadvantage of the individuals in question. There is still, however, too much complacency on the part of many bankers in their attitude toward overdrafts.

The Comptroller of the Currency has emphasized, in each annual report during the last few years, the desirability of reducing the overdrafts reported by the national banks. In his annual report, dated December, 1916, he suggested, for example, that the national bank act be amended so that "the laws of the respective states in regard to overdrafts[1] be made applicable to national banks, and that the individual liability prescribed by Section 5239, United States Revised Statutes, shall be made applicable to any violations of this provision, and also that the officers of the national bank shall be required to bring before the directors, in writing, at each directors' meeting, a list of all overdrafts made since the previous meeting of the board."

Through the efforts of the Comptroller and his bank examiners, coupled with the desire of most bankers for improved conditions, the total overdrafts for the national banks in the United States have been reduced from $27,460,769 in 1913 to $7,839,000 on September 12, 1916. As is well known to every person familiar with banking practice, the total overdraft reported is in the case of all banks by no means as great as it actually should be, for many banks carry among their cash items checks which would

[1] In some states directors, officers, and employees of banks who knowingly overdraw their accounts are guilty of a felony and may be imprisoned.

overdraw the depositors' accounts if charged to them. It has been suggested that some banks may also, in order to avoid criticism, carry overdrafts as call loans; but it is questionable whether this is now done to any great extent. An overdraft could not properly be listed as a call loan unless the bank held the customer's signed note payable on demand. In such case there would be no overdraft and the transaction would be undifferentiated from that of an ordinary loan transaction. Some years ago, before the Banking Department took its stand strongly against overdrafts, it was the custom among some of the bankers in Iowa to include among the bills receivable of the bank many of the checks which would otherwise overdraw the accounts upon which they were drawn. This practice amounted almost to regarding the checks as notes payable on demand, but I am informed that such practice was never considered reputable, that the bank examiners always required that such items be immediately taken out of the bills receivable, and that the practice is rarely, if at all, indulged in now. In my own experience with banks in Pennsylvania a very similar expedient was occasionally adopted. When it was not desired to charge up a check which would overdraw the account it was sometimes carried along with other items to be collected, such as protested paper and past due notes. It thus was similar to a call loan except that in general it was useless to "call" unless the customer was ready to pay.

So far as national banks are concerned, the Deputy Comptroller of the Currency says, "If national banks grant overdrafts they must carry and report them as overdrafts and not as loans. In order to be reported as call loans the bank must hold an obligation of the party to whom the advance is made." Section 5211, U. S. R. S. requires that national banks shall report their resources and liabilities under appropriate headings on the form prescribed by the Comptroller of the Currency, and the intentional reporting of overdrafts under any other than the correct heading would constitute the making of a false report, and subject the party guilty thereof to the penalty prescribed in Section 5209.

The reasons for the persistence of this slovenly banking practice and the seriousness of the problem of overdrafts in the average banker's conduct of his business will stand out in relief best if we study the problem where it is found in its greatest magnitude. This is in Iowa.

There are three main types of banking institutions in Iowa: (1) national banks, (2) state banks, and (3) stock savings banks.

The two latter types are organized under state laws, as are also the few trust companies which are to be found in the state. In addition there are private banks operating without charters and subject to no regulation. In this paper attention will be confined almost exclusively to the national, state, and savings banks, because the trust companies are relatively unimportant and the private banks, for the most part, furnish no reports.

On June 30, 1916, the total of overdrafts in all reporting banks was larger in Iowa than in any other state of the Union, being $2,657,000. The only other states in which overdrafts amounting to more than a million dollars were reported were Mississippi $1,477,000, Georgia $1,421,000, Missouri $1,420,000, New York $1,110,000, Nebraska $1,100,000, and Illinois $1,052,000. On this date there were 1,693 banks, excluding private banks, in Iowa, so that if the overdrafts were distributed equally among the banks each institution in the state would have had on that date overdrafts amounting to $1570.

That this leadership in the total of overdrawn accounts was not unusual for Iowa can be seen by reference to the figures for previous years. According to the reports of the Comptroller of the Currency, the states which led in the amount of overdrafts were as follows:

June 7, 1911

Texas	$6,710,953
Mississippi	3,433,858
Iowa	2,983,698
Illinois	2,842,393
Louisiana	2,329,696
Georgia	2,046,700

In no other states did the total approach $2,000,000.

June 14, 1912

Texas	$4,531,864
Iowa	3,300,364
Mississippi	2,610,836
California	2,320,855
Utah	2,088,042

June 4, 1913

Iowa	$3,581,156
Illinois	3,012,517
Mississippi	2,915,053
Texas	2,269,494
Missouri	1,827,764
Georgia	1,682,823
Utah	1,317,905

June 30, 1914[2]

Iowa	$2,008,289
Missouri	1,731,782
Mississippi	1,338,021
Illinois	1,228,519
Georgia	1,207,952

June 23, 1915

Iowa	$2,257,738
Missouri	1,565,044
Georgia	1,061,118
Tennessee	1,042,813
Nebraska	976,336
New York	949,253

In the foregoing totals the overdrafts permitted by private banks are excluded, since the results reported for those banks by the Comptroller are admittedly incomplete. It is estimated that only about half of the private banks in the country furnish any data to the Comptroller. The figures as given show that every year the same states usually appear as the worst offenders. Iowa in 1911 occupied third place; in 1912, second place; and since then has each year had the questionable honor of maintaining a clear leadership over the banks in all other states.

What is the explanation for the fact, which appears from the above statistics, that, while all states report some overdrafts, a certain small number of the states are constantly preëminent in this bad banking practice? A glance at the foregoing list impresses one with the fact that almost without exception the banks which offend worst in the practice of allowing overdrafts are those located in agricultural states, or, to be more accurate, in states having a large portion of their population in the rural districts.

It is well known that in agricultural states the banking institutions chartered by the states are in almost every case more numerous than the national banks located therein. There are several reasons which have frequently been set forth, and which therefore do not need repetition, to explain this relative unpopularity of national banks in agricultural regions. Here it may be thought we have a clue. It might be suggested that overdrafts are larger in these states because in the main their banking institutions are not

[2] These figures do not include the overdrafts reported by national banks since such figures could not be separately obtained. They were included in the Comptroller's report with other loans.

under national control but are under state regulation which may not be so strict.

Support is given to this theory by the following table in which are presented for several of these states the overdrafts attributable to national banks and to the banks under state control. The figures are of June 30, 1916:

States	Number of banks under state control	Overdrafts in state banks	Number of banks under national control	Overdrafts in national banks
Iowa	1217	$1,552,789	351	$614,000
Mississippi	276	1,430,266	35	47,000
Georgia	637	1,270,543	110	150,000
Missouri	1358	1,246,163	131	159,000
Nebraska	826	736,651	196	363,000

In these states, which are all mainly agricultural, the number of banks under state control is greater than of those under national charter and the overdrafts in the former institutions are much larger than they are in the latter.

That this reasoning does not prove exactly what it seems to prove is apparent when one examines another table which gives the number of national banks, the amount of overdrafts and the capital and surplus of these banks for Iowa and several of its neighboring states, together with three eastern states for the purpose of comparison. On June 30, 1916, the figures were as follows:

States	Number of national banks	Overdrafts	Capital and surplus
Iowa	351	$614,000	$34,607,000
Illinois	471	398,000	122,251,000
Indiana	256	193,000	41,654,000
Minnesota	281	273,000	46,073,000
Pennsylvania	833	209,000	246,524,000
New York	477	636,000	334,180,000
Massachusetts	158	65,000	93,204,000

It is shown by this table that, except for New York, Iowa *national* banks had permitted larger overdrafts than the national banks of any other state in the Union, the total on this date being approximately one tenth of all the overdrafts in the national banks of the country. National banks in Iowa and New York together were responsible for about one fifth of all the overdrafts among such banks. As will be seen from the table, New York national banks had nearly the same amount of overdrafts as did the Iowa national banks, although the combined capital and surplus in the

latter state was only one tenth as great as in the former. The ratio of overdrafts to the banking capital in each of these states is as follows: Iowa, 1.8 per cent; Illinois, 0.3 per cent; Indiana, 0.4 per cent; Minnesota, 0.6 per cent; Pennsylvania, 0.08 per cent; New York, 0.2 per cent; Massachusetts, 0.07 per cent.

Since for national banks as well as for state banks the situation is much worse in Iowa than in any other state, the cause must lie somewhere other than in the type of banking institution; it must be connected with the nature of the population and the relations between the bankers and their customers.

The first suggestion that will occur to the casual observer is that this situation in Iowa arises because most of the depositors in the banks are farmers; and the farmer, so many persons think, is more likely to overdraw his account than any other class of bank customers. There are two reasons which seem to lend support to this theory. First, the farmer is generally regarded as less familiar with banking practice than are other classes of the population and therefore unlikely to keep his accounts properly, or he overdraws his account without hesitation because he thinks the banker knows he is good for the amount and will therefore not object to the overdraft. The second reason is that since the farmer comes into town and to his bank perhaps only once a week or less frequently he sometimes finds it convenient to issue checks in payment of bills, regardless of the fact that his account may not be sufficiently large to meet them, with the expectation that he will provide for them when he goes into town.

Unfortunately for this easily satisfactory explanation it appears not to be true. I have obtained the testimony of ten bankers located in large and small towns and scattered over a considerable section of the state as to their experience in the matter of overdrafts.[3] Of these ten, four reply with certainty that business men —merchants and manufacturers—overdraw much more frequently than their farmer customers, making due allowance, of course, for the number of customers in each class; two report that there is

[3] This has been made possible by the kind assistance of Mr. George E. Grier, cashier of the Citizens' Savings & Trust Company of Iowa City, Iowa. The ten banks which furnished the information given above are: Iowa Loan & Trust Company, Des Moines; First National Bank, Davenport; First National Bank, Montezuma; The Citizens' Saving & Trust Company, Iowa City; Hills Savings Bank, Hills; Merchants National Bank, Cedar Rapids; Ames National Bank, Ames; Cedar Rapids National Bank, Cedar Rapids; The Citizens National Bank, Grinnell; and the Farmers Savings Bank, Hartwick.

apparently no difference in the propensity to overdraw—that the farmer as such is no more likely to overdraw than is the townsman; the remaining four regard the farmer as more likely to overdraw than the other classes of depositors. Thus, so far as this investigation has gone in an agricultural state, the preponderance of opinion seems to be that the tendency to overdraw bank accounts is not any more pronounced among agriculturists than it is among any other groups of people.[4]

The chief explanation for this marked tendency among banks of all kinds in Iowa to permit depositors to overdraw their accounts is found in the fact that the population is largely rural—that is, the people are distributed mainly in small towns and rural settlements. According to the state census for 1915, there were in the state of Iowa 893 incorporated places. Of these, 15 were of the first class, *i.e.*, having a population of more than 15,000; 90 were of the second class, having between 2,000 and 15,000 inhabitants; 788 had less than 2,000 people, and of these 685 had less than 1,000 in population.

The connection between such distribution of population and the tendency for overdrafts to be large is this—it is much more difficult for a bank officer to refuse to allow an overdraft, or to return a check because of insufficient funds when he knows personally and intimately the maker of the check than if his customers are not so well known to him. It requires much more firmness and is much more unpleasant for the cashier of a bank in the small town to refuse to honor Brown's check, which overdraws his account, when Brown is a neighbor, perhaps a member of the same church and lodge, and whose children play with the banker's children, than it is for the official of a large city bank to refuse to honor the checks of customers with whom he is only slightly or not at all acquainted, and in whose business affairs he has no personal interest. In the small bank the plea for permission to overdraw is directly to the officer capable of granting the indulgence, whereas in the large

[4] As a matter of collateral interest I sought to determine in this connection the validity of another hoary belief of many persons: *i.e.*, that women depositors overdraw their accounts more frequently than men. Most persons, particularly those whose opinions are formed by the perusal of comic papers, would say that women overdraw more frequently. However, eight out of ten of these bankers say that men are the worst offenders; the ninth has too few accounts with women to make any comparison; and the tenth thinks the overdrafts on the part of women are due to ignorance or carelessness in the methods of keeping their accounts.

bank such officials are more remote and more difficult to approach.

On June 30, 1916,[5] the average overdrafts per bank reported by the banks under state control in the four largest towns in Iowa were as follows: Des Moines, 18 banks with an average of $1,098 per bank; Davenport, 11 banks with an average of $1,065 per bank; Sioux City, 9 banks with an average of $1,192; and Cedar Rapids, 8 banks with an average of $464 per bank. At the same time the average amount of overdrafts for each bank in large and small towns throughout the state was $1,275. These figures support the theory that the overdraft evil, wherever found, is chiefly a matter of small banks and close personal contact between the banker and his customers.

The validity of this explanation for the extent of the overdraft evil in Iowa is supported also by the evidence that overdrafts are larger in stock savings banks than they are in either the national banks of the state or the other state chartered institutions. It has been shown earlier in this article that overdrafts in national banks are usually about one third as large as in the state institutions in Iowa; and of these state controlled banks the stock savings banks are the worst offenders. The figures of May 21, 1917, are typical of the usual ratio between the two groups of state controlled banks. On that date the stock savings banks reported accounts overdrawn to the extent of $1,197,895, while the state banks and trust companies reported only $655,734.

The savings banks, then, are chiefly responsible for Iowa's large overdrafts. The important fact to observe is that this type of banking institution is the one found most frequently in the smaller towns, and it will be recalled that three fourths of all the towns in Iowa have less than a thousand inhabitants. The chief reason for the popularity of the savings bank is the possibility of establishing it with a capital of as little as $10,000.[6]

To generalize, overdrafts may be said to occur with greatest frequency where the relations between the banker and his customers are closest. This statement is supported by the data from Iowa,

[5] Figures published in the State Auditor's Report for 1916.

[6] The minimum capital for national banks is $25,000; for "state" banks in Iowa the minimum is also $25,000 for banks in towns of 3,000 or less. For savings banks the capital requirements as established by the thirty-seventh General Assembly are as follows: in towns of less than one thousand population a minimum of $10,000; one thousand and less than two thousand population, $15,000; two thousand and less than ten thousand population, $25,000; over ten thousand population, $50,000.

which indicate that this improper practice is found in its worst form in small towns and in the type of banking institution which alone can profitably be established in the smallest towns.

A second important cause for the continuance of overdrafts is the intensity of competition among banks. The more intense the competition for business among bankers, the larger will ordinarily be the number of accounts overdrawn. The reason for this is obvious; if competition is keen each banker will grant concessions to his depositors, which he would otherwise refuse, because he fears that if his customers become dissatisfied they will carry their business, which may sometimes be worth while, and their influence to his competitors.

This sort of banking competition is much sharper in the Middle Western and Southern states than in the greater capitalistic centers of the East such as New York, Pennsylvania, or Massachusetts. In these latter states the banking business tends more toward monopoly. The capital requirements are greater and there is a constant trend toward consolidation of banks. There is severe competition for business, but the ordinary depositor can obtain only such impersonal relationship with any bank that he can rarely gain any additional privileges in the matter of overdrawing by transferring his account from one bank to the other.

In the following table the states are selected to illustrate the intensity of bank competition. The figures are taken from the Comptroller's report for June 30, 1916, and include all reporting banks.

State	Number of banks	State	Number of banks
Iowa	1693	Minnesota	1295
Missouri	1506	Kansas	1198
Illinois	1420	Ohio	1124
Texas	1409	Nebraska	1022
Pennsylvania	1361	New York	986
		Massachusetts	436

It is not surprising to find that Iowa, which leads in overdrawn accounts also leads in the number of banking institutions. As indicated in the table, Iowa has more banks than any other state in the Union. The population of Iowa, as given in the state census of 1915, was 2,358,066; there was, therefore, at that time, one bank to every 1455 people, and it must be remembered that this ratio would be even more striking if the whole number of private banks had been included. A better idea of the severity of com-

petition of the banks of Iowa for the business of the community is obtained if we apportion these banks among the towns rather than among the people.[7]

The number of incorporated places in 1915 was 893, and therefore if the banks were apportioned equally among these towns there would have been nearly two banks to every town. In this connection, if one recalls that, as was said above, only 105 of these towns had more than 2,000 inhabitants, and that 685 of the total number had less than 1,000 inhabitants each, a more vivid impression will be obtained of the extent to which these banks must compete with one another to get the business which is available. The town of Larrabee, having a population of 192 according to the state census of 1915, has two banks each of which had on June 30, 1916, a capital of $25,000 and overdrafts of $2,141 and $9,744 respectively. Minden, with a population of 429, has two banks, capitalized at $12,000 and $25,000 respectively. The first of these recorded overdrafts of $1,793 and the second $4,134. Wellman, having a population of 839, had three banks with a total capital of $65,000 and total overdrafts of $5,285. It is quite common to find overdrafts reported in these small towns to the amount of 10 per cent of the capital of the reporting bank, and overdrafts equalling 20, 25, and even 30 per cent of the capital of the bank are not infrequently recorded.

The intensity of the competition to get depositors leads the banker not only to look indulgently upon an overdraft by one of his customers because he fears to offend him by throwing out his check, but frequently leads also to an offer of such privilege to obtain a customer. A prominent banker in Iowa has told me that on several occasions when he was attending some of the frequent stock and equipment sales, which are important events in the business life of the Iowa farmer, he has observed the cashiers of some of the small banks going through the crowd and urging the purchasers to pay for their goods by issuing checks on their banks, and, for this purpose, offering them check books immediately, although the purchasers had no balance whatever with such banks. Of course it was expected that they should come in later and make good the overdraft, thus establishing a connection with the bank,

7 This is much more accurate procedure because the banking institutions are located in the towns and not out in the open country. Hence each bank instead of having undisputed possession of its own little community of 1,455 persons, generally shares with one or more additional banks the business which centers in a town of from 500 to 1,000 people.

which the banker counted on maintaining. Obviously the banker must, in such cases, know something of the responsibility of the individual to whom he makes such a proposition. But under any circumstances it is a most pernicious practice and shows to what extremes the multiplication of banking institutions drives some of the bankers in their efforts to get a share of the business.

Overdrawing of accounts may well be said to be a survival of careless banking habits. Banking experience shows that the trouble arises mainly from the same individuals, who time after time overdraw their accounts. During the pioneer stage in banking in the Middle West, which is not so far in the past, many practices which are not now regarded as sound and have been abandoned were considered minor lapses. Overdrawing of one's account was then regarded and is still considered by many persons as a matter of no great consequence. They have heretofore overdrawn their accounts and can see no reason why they should not continue to do so. This habit is overcome slowly and with difficulty, and one of the reasons for its greater seriousness in Iowa and some of the other western and southern states, as compared with the eastern and more densely populated regions, is that the former states are still closer to that pioneer stage through which all have had to pass.

There is another explanation of the continuance of the overdraft evil in spite of efforts to eradicate it. It persists because of the ignorance of the functions and service of a bank. Many depositors express this misunderstanding of the proper service of the bank when they say, "The bank has had my money on deposit for some weeks, and therefore it should not object to an occasional overdraft. It is merely a temporary loan." The difference between an overdraft and a regular loan will be pointed out later, but it may here be said that the bank has already rendered service, sometimes at an actual loss to itself, as compensation for the deposit, and cannot be expected to grant the additional privilege of a loan of bank funds without interest. Persons who thus justify themselves for the practice would scarcely presume to ask the bank directly for a loan without interest. They thus seek to obtain indirectly and without permission that which they would not have the temerity to seek in a proper manner.

The nature and methods of business of the community account for the large overdrafts in certain sections of Iowa. In parts of the state buying and shipping cattle is an important business, and

many overdrafts arise in the course of these transactions because, as the cattle buyer says, when he starts out to buy cattle he never knows just how much money he is going to require and he therefore issues his checks regardless of the amount of his balance in the bank, with the expectation that he will provide for the payment of the overdraft when he returns to his home. A banker in Iowa tells of a certain cattle buyer who usually carries a balance of several thousand dollars but every two or three weeks overdraws his account for a few days to the extent of a thousand dollars or more at a time. Remonstrance on the part of the banker and the suggestion that he arrange for a loan are of no avail. This particular individual prides himself on the fact that he never needs to "borrow" money. This experience in Iowa explains the reason for overdrafts which arise in a similar manner in other cattle shipping states.

Finally it must be said, in spite of the skepticism of bankers, wearied by their efforts to eliminate this evil, that overdrafts do sometimes occur through errors on the part of depositors who do not intentionally overdraw their accounts. But the practical banker has been told so often by depositors under such conditions that there must be an error on the part of the bank which has caused the account to appear overdrawn that he grows to distrust the motive and to question the excuse of all customers.

The objection to allowing depositors to overdraw their accounts, aside from the general criticism that it encourages careless and slipshod banking methods, which are always dangerous to the banker and the community, rests upon the fact that an overdraft is a loan, and because it is irregular, often unauthorized and unsecured, is a particularly dangerous method of lending the bank's funds.

An overdrawn account may be called an irregular loan because it appears, so far as the bank is concerned, unexpectedly and has no definite date of maturity. It may be paid off in a day or two or it may have to be carried for weeks and months, and perhaps eventually be charged off. Because of this irregularity it is very undesirable from the standpoint of sound banking since it interferes with the banker's control over his reserves. In this connection another serious objection arises. An overdrawn account puts the bank official in a very annoying and dangerous position. He dare not be harsh or unaccommodating in his attitude toward the one who has overdrawn his account lest that individual refuse to

repay what he has already thus borrowed. It needs no comment to demonstrate that this is a very dangerous relation between a banker and his depositors. An overdraft is an unauthorized loan and thus opens the way for the possibility of fraud and defalcation. A loan made in regular form requires generally the sanction of the board of directors, but the decision as to whether or not to pay a check which will overdraw an account must be made at once and is usually made by the cashier or some other official without reference to any other authority. Finally, an overdraft is usually an unsecured loan, for there is merely the implied promise that the drawer of the check will eventually pay it.

The courts have repeatedly declared this practice of permitting overdrafts a violation of legitimate banking. For example, the United States Supreme Court has said:[8]

> A usage to allow customers to overdraw, and to have their checks and notes charged up, without present funds in the bank—stripped of all technical disguise, the usage and practice thus attempted to be sanctioned, is a usage and practice to misapply the funds of the bank, and to connive at the withdrawal of the same, without any security, in favor of certain privileged persons. Such a usage and practice is surely such a manifest departure from duty both of the directors and cashier, as cannot receive any countenance in a court of justice. It could not be supported by any vote of the directors, however formal; and therefore, whenever done by the cashier, is at his own peril, and upon the responsibility of himself and his sureties. It is anything but well and truly executing his duties as cashier.

A very erroneous impression would be given if this paper were understood to suggest that the bank officials in general are willingly at fault in this matter. In fact, the majority of bankers would be very glad to see the practice of overdrawing entirely eliminated, and the chief attempts to force abandonment of the practice are initiated by the bankers themselves. The American Bankers Association has sought to have the various states adopt legislation which will make the issuing of checks without sufficient funds to pay them prima-facie evidence of the intent to defraud, and such a law has nearly always had the support of most of the local bankers. But their efforts to improve the situation are hampered constantly by business men who wish to preserve for themselves the privilege of overdrawing when they find it necessary, and by bankers of small caliber who are so handicapped in competition with better bankers that they feel it necessary to offer unusual

[8] *Minor et al* v. *The Mechanics Bank of Alexandria,* 1 Peters, p. 71.

concessions in order to get any business. To meet this unprincipled competition the better institutions are forced to relax somewhat in their attitude of hostility toward overdrafts.

The chief remedy then is to raise the level of competition by making it difficult or impossible for any bank to continue to grant this privilege. A long step toward the accomplishment of this object would be taken if the law recommended by the American Bankers Association should be adopted by the various state legislatures. Other legislation might be adopted, such as imposing a financial penalty upon those banks which show overdrafts when called upon for statements; compelling directors to file their personal bonds to guarantee payment of all overdrafts; or it might even be carried to the extent of denying to a bank the privilege of receiving any further deposits or of making any additional loans so long as it had any overdrawn accounts.

Next to raising the level of competition among banks for the purpose of reducing the overdraft evil, restricting the intensity or the amount of competition might prove effective. As has been shown from the study of Iowa statistics, the establishment of a great number of banks in a sparsely settled community results in competition so severe as to lead almost certainly to overdrawn accounts. The obvious way to limit this competition is to keep down the number of banks by raising the capital requirements. But for a state like Iowa it is questionable whether the interests of the scattered population would be as well promoted by a comparatively few banks with large capital as they are by many banks with small capital, even though one of the accompanying results of the latter plan is a large total of accounts overdrawn.

Much is being accomplished in Iowa, as elsewhere, through the voluntary efforts of the bankers, aided and admonished by constant suggestion on the part of the Comptroller of the Currency and the heads of the various state banking departments. Perhaps as the pioneer stage in banking recedes farther and farther into the past, the practice of permitting accounts to be overdrawn will disappear, as did the custom of carrying on a mercantile and banking business together, and the still more dangerous custom of establishing banking institutions with little or no cash capital.

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